

29 February 1956

MEMORANDUM FOR: Project Comptroller (AQUATONE)

SUBJECT : Legal Questions Pertaining to Personal
Service Contractors

1. Paragraph 1.c. of a memorandum to you from our Office, dated 9 February 1956, discusses the tax status of bonus payments to be made to the contractors. As stated in that memorandum, the bonus does not accrue currently for tax purposes since the obligation of the Government to pay it is conditioned on satisfactory completion of the contract, at which time it is provided that the bonus will be paid in a lump sum.


2. We have investigated the possibilities of "spreading back" this payment over the period of the contract for tax purposes, under Section 1301 or Section 1303 of the Internal Revenue Code, but find that this cannot be done. However, if the contracts should provide for payment of the bonus in several installments at stated times falling in several tax years, the total tax thereon would be substantially reduced. It is suggested that you discuss this with the various contractors and have their contracts worded or amended to read in this manner if so desired.

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Assistant General Counsel

OGC, 

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